

Minimum Wage

The Problem

The automatic annual increase in the state's minimum wage is preventing many businesses from adding jobs at a time when Washington's unemployment rate continues to rank near the top nationally. Some businesses are either moving to other states where labor costs are more affordable, or they are hesitant about expanding into our state.

The Solution

When the state's unemployment rate is higher than the national unemployment rate, the automatic minimum wage increase needs to be suspended. Wage and hour laws need to be consistent and predictable.

Background

In 1998, Washington voters approved Initiative 688, which provided a \$1.60 increase to the minimum wage in a two-step process by January 2000. In addition, the initiative provided for future automatic increases to the minimum wage based on the Consumer Price Index (national CPI, includes Seattle).

In 1998, the state's minimum wage was \$4.90/hour. Today it is \$7.16/hour, the highest in the nation. The rate will rise 19 cents in 2005 to \$7.35/hour — keeping it at the nation's highest. The federal minimum wage has been \$5.15/hour since 1997.

Washington is one of 12 states with a minimum wage above the federal rate. Oregon's 2005 rate will be \$7.25/hour, second-highest nationally and Alaska's 2005 rate will be \$7.15/hour, third-highest. Like Washington, the minimum wage rate in both Oregon and Alaska are linked to inflation. All three states rank high nationally in unemployment.

In recent years, many employers in Washington have either cut jobs because of the minimum wage increases or they have been unable to add jobs because of the labor costs associated with the annual automatic minimum wage hikes.

Higher minimum wage rates, especially in some industries such as agriculture, drive up the costs of goods and make it harder for Washington to compete with other states or nations. Both border states to Washington have a lower minimum wage. Idaho's \$5.15 rate is the same as the federal rate, and Oregon's is \$7.04/hour.

For more than 25 years, L&I interpreted the state Wage & Hour Laws consistent with federal law except when state laws were expressly different. Then in 2000, after a State Supreme Court case regarding the applicability of federal regulations concerning salary deductions, L&I announced it no longer knew what its law meant, and could no longer tell employers how to comply. Employers

were left without guidance, completely exposed to lawsuits that are now determining the most basic wage and hour requirements on a case-by-case basis.

In 2003 and 2004, ESSB 5697 and SSB 5462 tried to control the state's minimum wage. Both passed the Senate -- ESSB 5697 (25-24 in 2003 and 27-22 in 2004) and SSB 5462 (25-24 in 2003) -- but died in the House Commerce and Labor Committee.

SRC Goals

Link state minimum wage increases to unemployment rates: Under such a measure, if the inflation rate was 3 percent for 2004, and Washington's unemployment rate was below the national rate for six of the 12 months, then Washington's minimum wage would increase by only 1.5 percent. The indexing in a proposed 2005 Senate measure (just as in ESSB 5697 in 2003-04) is based on the number of months when Washington's unemployment rate is below the national rate. For each month in a calendar year that the state's unemployment rate exceeds the national average, minimum wage increases will not be indexed to the rate of inflation.

In September 2004, the state's unemployment dropped to 5.6 percent, the lowest rate since 2001. However, it still remained above the national rate, which was 5.4 percent that month.

In October, the state's unemployment rate remained at 5.6 percent — one-tenth of a percentage point above the national rate of 5.5 percent.